

Kenneth Rust
Director
Federal Regulatory Matters

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Ex Parte

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W. - Room 222
Washington, D.C. 20554

Re: CC Docket No. 94-1

Dear Mr. Caton:

Yesterday, Joe DiBella, Frank Gumper, Susanne Guyer, and I, representing the NYNEX Telephone Companies (NTCs), met with Mr. J. Schlichting, Chief, Program and Policy Planning Division, and members of his staff, Ms. C. Pabo and Messrs. P. DeGraba, S. Kupinsky, M. Nadel, D. Sieradzki, D. Slotten, and D. Stockdale, regarding the NTC's suggested approach in dealing with the inter-related issues of Price Caps, Pricing Flexibility, and Access Reform. Due to the late hour at which the meeting ended, a notice of an *ex parte* presentation could not be filed until today.

The attached material, which in some manner impinges on items to be included in the FNPRMs in CC. Dkt. No. 94-1, served as the basis for the presentation and ensuing discussion.

Any questions on this matter should be directed to me at either the address or the telephone number shown above.

Sincerely,



Attachment

cc: J. Schlichting
P. DeGraba
S. Kupinsky
C. Pabo
M. Nadel
D. Sieradzki
D. Slotten
D. Stockdale

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Lessons Learned from Competition...

Competitors will target high volume urban customers first.

- **Special Access**
- **Multiline Business**
- **Single Line Business/Residence**

Barriers to Competition differ for Switched and Special Access...

Special Access

- **Authorization to provide service**
- **Ability to collocate and interconnect**
- **Unbundled network elements available**
- **Access to poles, conduits and rights of way**

Switched Access

- **Authorization to provide service**
- **Local exchange competition authorized**
- **Compensation, Interconnection and Intrastate Collocation are available**

Regulatory Framework and Competition...

- **Existing framework reflects view that Price Cap LECs have monopolies.**
 - **Implicit and explicit subsidies in rates.**
 - **Averaged rates across area.**
- **Evolution of competition has demonstrated need for fundamental changes.**
 - **Recognized by the Commission in;**
 - **USPP Waiver Order**
 - **Second FNPRM in Price Cap Proceeding**
- **Adaptive regulatory model required as competition evolves.**
 - **Industry should know in advance how key regulatory structures will change as competition evolves.**

Public Policy Benefits of Adaptive Regulatory Model ...

- **Provides clear signals, in advance, to the market of changing regulatory framework.**
- **Provides incentives to LECs to facilitate the evolution of competition.**
- **Addresses concerns of regulators and competitors that LECs will use pricing flexibility to hinder competition.**
- **Addresses concerns of LECs and provides assurance that regulation will adapt and keep pace with competitive developments.**
- **Eliminates continuing regulatory scrutiny of waivers requested in response to competition.**

Proposed Regulatory Model ...

● Phase 1

- **Framework A - Baseline -**
 - No competitive presence or market entry.
- **Framework B - Barriers to Entry Removed, and Competitor Present -**
 - Implicit and explicit barriers removed.
 - Market is open to competitive entry.
 - Competitor is present in region
- **Framework C - Significant Competitive Presence -**
 - Barriers to entry removed.
 - Competition is present throughout major segments of LEC market.

Proposed Regulatory Model ...

- **Phase 2 - Streamlined Regulation -**
 - **Follows Framework C.**
 - **Products and areas are subject to effective competition.**
 - **A service, or group of services, in the relevant market area are removed from price caps.**
- **Phase 3 - Non-dominant Status -**
 - **Follows Streamlined Regulation.**
 - **LEC classified as non-dominant for a service, or group of services, in the relevant market area.**

Proposed Regulatory Model ...

● Criteria

- **Transition from Framework A to B -**
 - **Barriers to Entry removed in areas/jurisdictions overseeing “75%” of the LEC’s access lines, and a competitor is operational in region.**
- **Transition from Framework B to C -**
 - **Barriers to entry removed in all areas/jurisdictions.**
 - **Competitive presence in areas representing “40-50%” of the LEC’s total business access lines (or 40-50% of revenue for special access) .**
- **Transition from Framework C to Streamlined -**
 - **Demonstration of demand responsiveness of 15%.**
- **Transition from Streamlined to Non-dominant -**
 - **LEC services must be subject to streamlined regulation for 1 (or 2) year(s), and competition has not been impeded.**

Regulatory Model should Address...

- **Rate Structure**
- **Subscriber Line Charge**
- **Pricing Flexibility**
 - Lowering Prices
 - Raising Prices
- **Price Cap Structure**
 - Baskets and bands
 - Productivity - X Factor
 - Carrier Common Line
- **Flexibilities for introducing new services**
- **APPs, Market Trials and Volume/Term Discounts**

Components of Adaptive Regulatory Model Change as Competition Evolves...

Framework

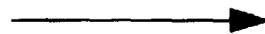
Component

A

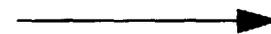
B

C

Rate Structure



**Pro-competitive
Structural Changes**



Pricing Flexibility



**Increased Pricing
Flexibility**



Price Cap Baskets



**Simplify / Reduce
Basket Structure**



Price Cap Productivity



Reduced X Factor



Components of Adaptive Regulation Model - Framework A

- **Rate Structure**
- **Pricing Flexibility**
- **Price Cap Baskets**
- **Productivity**
- **Present Rate Structure**
- **Streamlined Part 69 Waiver Process**
- **New Services Expedited Process;
14 days notice, with cost support**
- **More flexible Band Limits (+5%, -15%)**
- **Existing Price Cap Structure**
- **Eliminate Common Line Formula**
- **Operator Services in present
Information Category**
- **Productivity Factor: X**

Illustrative Components of Adaptive Regulation Model -

Framework B

- **Rate Structure**
 - **Zone Structure for LS, CCL, and IC**
 - **LTS recovered on market share**
 - **SL/ML structure for LS, CCL, and IC**
 - **ML CCL recovery on basis of IXC's SL PSLs**
 - **Increase EUCL**
- **Pricing Flexibility**
 - **Volume and Term pricing**
 - **Alternative Pricing Plans, Market Trials**
 - **Greater downward pricing flexibility (e.g., 50%)**
- **Price Cap Baskets**
 - **Consolidation of service categories; move to segment into Common Line, Switched, and Trunking (with IC in Switched)**
- **Productivity**
 - **Lower productivity; X - a**

Illustrative Components of Adaptive Regulation Model - Framework C

- **Rate Structure**
 - Further segment ML structure into “small” and “large” Business
 - Deaverage EUCL by Zones
 - Establish higher SL EUCL for Zones 2 & 3
- **Pricing Flexibility**
 - Unlimited downward flexibility (- 100%)
 - Authority to respond to RFPs
- **Price Cap Baskets**
 - Combine Common Line and Switched
 - Resulting in two primary baskets; Switched and Trunking (Special)
- **Productivity**
 - Lower productivity; X - b